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C O N F I D E N T I A L SECTION 01 OF 02 JAKARTA 000853

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DEPT FOR EAP/MTS; EB/TPP; EV/TPP/BTA
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TAGS: [ETRD](#) [EINV](#) [ECON](#) [PGOV](#) [ID](#)
SUBJECT: SCENESETTER FOR USTR AMBASSADOR SCHWAB VISIT TO
INDONESIA

Classified By: Ambassador Cameron R. Hume for reasons 1.4 (b) and (d).

11. (C) Summary: Your trip to Indonesia comes at a time when we are having difficulty finding traction in our bilateral trade and investment relationship. The dual forces of democratization and decentralization that have made Indonesia a political success story have been accompanied by a desegregation of power that confuses investors, inhibits policy coordination and hinders Indonesia's ability to formulate a cohesive vision on trade and investment issues. Maintaining lines of communication through our Trade and Investment Framework (TIFA) discussions is critical to developing our economic engagement with Indonesia. However, our success will also depend on strengthening our relationships with institutions and constituencies that can help advance our trade and investment agenda. End summary.

Trade Policy: No Traction

12. (C) The Government of Indonesia (GOI) has been lukewarm on advancing a trade agenda with the U.S. despite our continued dialogue under the TIFA. Exploratory discussions on the possibility of entering negotiations toward a Bilateral Investment Treaty (BIT) have been scheduled, but the GOI's seriousness and commitment remain unclear. The GOI has expressed concerns that it is unable to meet the high standards of a U.S. BIT. The GOI has however completed trade agreements with other partners, including an Economic Partnership Agreement (EPA) with Japan. It is also negotiating an investment treaty with Canada. Ministry of Trade officials pointedly note that trade capacity assistance from Japan was included as part of the EPA and hint that similar assistance may be expected from other trade partners in future agreements.

Investment Policy: Lack of Coordination

13. (C) Investment policy in Indonesia is characterized by a multitude of competing voices, a lack of institutional coordination and the absence of an overall vision articulating Indonesia's outlook on foreign investment. Investment policy is more often shaped by interagency negotiation and compromise among bureaucratic vested interests than by economic theory or an organizing principle. As a result, policy outcomes are often confusing and investors receive mixed signals. An example is the 2007 negative list of sectors closed or limited to foreign investment. While on the one hand it represents a step toward greater transparency and legal certainty, it is widely seen by the business community as a step backward in terms of

signaling Indonesia's openness to foreign investment.

Investment Climate: Disputes Outnumber New Investors

14. (C) At the same time Indonesia continues to be bedeviled by a series of high profile investment disputes that damage its reputation among international investors. Intel, Mars, Kraft, Manulife, Newmont, Nike and General Electric are just a few of the list of large international companies to encounter problems with their investments in Indonesia. Many of the issues can be traced to Indonesia's basket of investment climate challenges, including the need for legal reform, anti-corruption reform and labor law reform. The lack of coordination and absence of a clear vision undermine any systematic approach to addressing these issues.

Agenda: The Ball is in Our Court

15. (C) Ministry of Trade officials tell us that they "welcome ideas" on how to invigorate the bilateral trade and investment relationship, but offer none of their own. Our challenge: to find areas of mutual self-interest to engage Indonesia and develop our trade and investment ties. We should seek to support the positive steps made by Indonesia to address some of these issues institutionally. For example, the GOI's National Team for the Promotion of Exports and Investment (PEPI) has the potential to serve as a coordinating mechanism for investment policy while providing objective analysis and sound policy recommendations to the Indonesian Government. American business contacts report positive experiences with PEPI in resolving investment disputes. Despite PEPI's success it remains underfunded and understaffed. For our own benefit, we should encourage

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Indonesia to support this institution with proper staff and funding.

HUME